



# FINANCE & DEVELOPMENT

A quarterly magazine of the IMF

**December 2001, Volume 38, Number 4**

## What Africa Needs to Do to Benefit from Globalization

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Globalization, which is not a new phenomenon, may be defined as the increasing interaction among, and integration of, the activities—especially economic activities—of human societies around the world. This definition contains both a description and a prescription. The description refers to the expansion of international flows of trade, finance, and information into an integrated global market, the prescription to the liberalization of national and global markets in the belief that free flows of trade, finance, and information will produce the best outcome for both economic growth and human welfare.

There are two reasons for the recent popularity of the concept of globalization. The first is the scale and speed with which it is occurring and the way technology (especially in communications and transportation) is changing the world. Second, it is now widely accepted that globalization is not just the latest economic fad but that the international environment is changing in profound ways and that the world is indeed becoming a global village.

### Development crisis in Africa

How Africa decides to approach globalization must be determined by its most urgent goals: accelerating economic growth and development and eradicating poverty, which is not only widespread but deep and severe in some countries. At the beginning of the twenty-first century, poverty remains Africa's most pressing problem, and economic growth is the sine qua non of poverty reduction. Thus, Africa needs to achieve, as quickly as possible, growth that is both sustained

and rapid.

The main questions Africa has to ask itself about globalization are as follows. First, having escaped the worst effects of the Asian crisis, should it still pursue globalization? Can Africa continue to remain isolated as the winds of change sweep through the global economy? Second, what are the advantages and disadvantages of integration into the global economy? How can the risks of globalization be minimized? What are the most important lessons Africa can learn from the crises and growth experiences of the Asian countries so that it can more successfully manage the unavoidable difficulties of globalization? Third, to what extent is Africa already integrated into the global economy, judging from the various indicators at our disposal, and how can it improve its competitiveness in international trade? Fourth, is globalization the panacea for all of Africa's economic problems? Fifth, what policy measures must Africa put in place to derive maximum benefit from globalization?

### **Avenues to globalization**

There are a number of reasons why many analysts advocate Africa's greater integration with the global economy. The overriding reasons are Africa's poor overall economic performance—which is due to a number of factors, including colonial history, disadvantageous geography, heavy economic dependence on exports of primary products, and macroeconomic policy errors—and the advantages Africa can derive from globalization. Africa's economic marginalization, the result of its relatively isolationist policies and closed economies, explains why economic prosperity has eluded most of the continent. The appeal of a more open economy is based on a simple but powerful premise: economic integration will improve economic performance. Additionally, globalization will offer new opportunities—such as expanded markets and the acquisition of new technologies and ideas—all of which can yield not only increased productivity but also higher standards of living.

*International trade.* The first avenue of economic integration for most countries is international trade. Trade remains the main vehicle for Africa's participation in, and full integration into, the global economy. Africa's trade is, however, concentrated in a narrow range of primary commodities, and, within this narrow range, Africa's market share has been shrinking. During 1960-69, Africa's average share of total

world exports was 5.3 percent, and of imports 5.0 percent. During 1990-98, however, these figures dropped to 2.3 percent and 2.2 percent, respectively. These declines are attributed to, among other factors, the restrictiveness of Africa's trade regimes, slow growth of per capita income, high transportation costs, and the continent's distance from major markets. Although Africa made substantial progress toward trade liberalization in the 1990s, its trade policies remain, on average, more protectionist than those of most of its trading partners and competitors.

*Capital flows.* With respect to capital markets, the second avenue to globalization, it has been noted that Africa was arguably the first continent to become integrated with the world economy: a higher proportion of Africa's wealth is held internationally than of any other continent. Estimates of the ratio of capital flight from African countries to Africa's gross national product range from 24 percent to 143 percent. And, although the global level of private capital flows has increased, Africa has not been one of the main beneficiaries. Thus, Africa has also missed out on the benefits that usually accompany such flows, such as job creation and the transfer of technology, management, and organizational skills. In 1990-94, the net return on investment in Africa was 20-30 percent, compared with 16-18 percent for the developing countries as a group. Africa has nevertheless failed to attract the capital flows it needs because of negative perceptions of the continent's economic and political activities, its poor infrastructure, and an inadequate legal framework, particularly for the enforcement of contracts.

Africa gives foreign direct investment pride of place because of its potential to stimulate economic growth. Although foreign direct investment in developing countries has increased in recent years, Africa's share of the total has remained as low as 3 percent. In an effort to attract more foreign direct investment, many African countries have taken such measures as expediting the approval process, removing restrictions on the repatriation of profits, providing liberal tax incentives, and allowing foreign participation in the privatization of state-owned enterprises.

*Integration through human migration.* The movement of people across national borders is the third avenue to globalization. Over the years, and with more vigor in recent times, many Africans have moved to Canada, France, the United Kingdom, and the United States. The main push

factors from the home front include poor working environments, deteriorating infrastructure, and political instability and conflicts. It is estimated that more than 30,000 Africans with doctoral degrees work in Western Europe and North America. The advantages of emigration include workers' remittances, which assure their countries of origin a steady inflow of foreign exchange, and development of contacts that can lead to the acquisition of better skills, experience, and exposure to the latest technologies. The African diaspora can thus make an important contribution to the continent's development.

*Advances in telecommunications and transportation.* The main forces behind globalization are not only the increasing ease of communication and transportation but also the falling cost of communications. The cost of telephone calls has dropped in most countries, and the number of telephones has increased in all regions except Africa. In Africa, the telephone sector is characterized by low network penetration rates, obsolete equipment, and long waiting lists for telephone lines. In 1996, there were only 2 lines for 100 Africans. The average expected wait for obtaining a telephone in Africa was 31/2 years, the longest in the world. Telecommunications infrastructure is a conduit to the Internet, which lies at the heart of the information technology necessary for a market-based economy. Complete integration with the global economy requires a functioning, readily accessible, and affordable telephone system.

If Africa continues to have the lowest teledensity and the fewest computers of any region in the world, it will remain marginalized and cut off from information and knowledge technology and, therefore, unable to compete in the global economy. Africa must take the necessary steps to rectify its deficiencies in this area.

### **Maximizing the benefits of globalization**

It is important to stress four points.

First, globalization is not a panacea. It will not solve all of Africa's economic problems. Integration with the global economy is a necessary but not a sufficient condition for growth. Sustainable growth and poverty reduction depend on other factors as well, including macroeconomic stability, a high investment-to-GDP ratio, reliable accounting and legal systems, and responsible government institutions. Empirical

evidence shows that countries that have grown fast are those that have invested a large share of their gross domestic product and maintained macroeconomic stability. Africa must also anchor its growth prospects in the development of human capital, physical infrastructure, and strong institutions. It must foster the development of the private sector and the macroeconomic environment needed for the private sector to be viable. Good governance that stresses accountability and transparency and the development of institutions—the civil service, a sound banking system, and a trustworthy and independent judiciary—is also critical in this era of globalization.

Second, it is unlikely that a liberal trading regime will, by itself, generate greater volumes of trade unless accompanied by high-quality economic growth.

Third, to benefit from the global economy, Africa must make policy changes to become competitive and capable of venturing into new areas.

Fourth, given the differences in education, infrastructure development, and macroeconomic stability in individual African countries, the benefits of globalization are not likely to be the same for all. Africa can learn a lot from Asia's development strategy. Asia benefited from its openness to the entire world and achieved enviably stable per capita income growth of 5 percent and above, with few downturns, and a remarkable decrease in the incidence of poverty. This progress was due to the importance the Asian countries attached to education and technology, an export-oriented strategy, a sound macroeconomic environment, and high saving and investment rates.

What does Africa need to do to reap the maximum benefits from globalization?

*Trade.* Tackling Africa's trade problem requires a two-pronged approach. At the national level, countries need to liberalize trade by removing trade barriers, adopting appropriate exchange rate policies, and diversifying exports. At the international level, there are two strands of thought on where Africa should concentrate its efforts. Some believe it should concentrate on primary products, where it has a comparative advantage. Others focus on the long run, arguing that a determined shift toward the promotion of manufacturing and export of manufactured products will be required for Africa to

achieve rapid productivity growth. A comparative advantage in manufacturing would be a launching pad into the global economy.

Building up Africa's manufacturing sector will not be simple, however. The sector is not competitive for a host of reasons. First, policy has failed to promote the technical capacities or specific knowledge needed to enhance efficiency, which is fundamental to successful industrialization. Second, the key to successful exporting lies in the technical efficiency of firms, which, in turn, is dependent on policies encouraging innovation and economies of scale. Third, transaction costs in Africa tend to be high for a number of reasons, including high tariff and nontariff barriers, high international transport costs, poor telephone systems, and unreliable infrastructure facilities for essentials like water and electricity. Because manufacturing is transactions-intensive, this sector is nonexistent in some African countries and extremely small in others.

At present, the playing field in international trade is not level. The industrial countries should eliminate restrictions against imports of African products, while the African countries must develop a coordinated trade strategy and play a more active role in both demanding and making concessions in trade negotiations.

*Capital flows.* Many African countries have adopted policies intended to make them more attractive to foreign investors—for example, liberalizing investment laws, offering fiscal incentives, easing restrictions on entry and profit remittances, and strengthening their banking and financial systems to eliminate the kinds of weaknesses that were responsible for the Asian crisis.

*Debt.* There is ample evidence that Africa's external debt burden is a severe obstacle to investment and renewed growth. Attempts to reduce or eliminate the debt burden are crucial to Africa's development.

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